

An Overview of the Administration's Strengthening America's Communities Initiative

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Summary

For the second consecutive year, the Administration has included in its budget request, a proposal that would eliminate a number of federal economic and community development programs. Last year, the Administration's FY2006 budget recommendations included a proposal that would have consolidated the activities of at least 18 existing community and economic development programs into a two-part grant proposal called the "Strengthening America's Communities Initiative" (SACI). Responsibility for the 18 programs now being carried out by five federal agencies (the Department of Housing and Urban Development, the Economic Development Administration in the Department of Commerce, the Department of the Treasury, the Department of Health and Human Services, and the Department of Agriculture) would have been transferred to the Commerce Department, which currently administers the programs of the Economic Development Administration. Under the Administration's FY2006 proposal, the Department of Commerce would have administered a core program and a bonus program. The bonus program would have awarded additional funds to communities that demonstrated efforts to improve economic conditions.

The FY2006 SACI proposal would have reduced total funding for the 18 programs from \$5.6 billion in FY2005 to \$3.7 billion in FY2006. Congress rejected the Administration's budget proposal and funded all 18 programs at a total level of \$5.3 billion. Although an outline of the proposal was included in the Administration's FY2006 budget documents, the Administration did not submit a legislative proposal during the first session of the 109th Congress. Instead, after facing significant opposition, an advisory group was established within the Department of Commerce to assist the Secretary in developing a detailed legislative proposal.

The Administration's FY2007 budget request outlines a revamped SACI proposal. Under the FY2007 version, two of the 18 programs would be funded—HUD's Community Development Block Grant (CDBG) program and a new Regional Development Account within Economic Development Administration (EDA). The FY2007 budget proposes a SACI funding level of \$3.360 billion—nearly \$2 billion less than the aggregate appropriation for the 18 programs in FY2006.

The Administration's FY2007 budget identifies some general elements of the new SACI proposal including development of a common set of goals and performance measures for federal community and economic development programs by HUD and the Department of Commerce. In HUD, the Administration plans calls for a new CDBG allocation formula targeted to the neediest communities, a bonus fund component, and reforms that address the program's shortcoming outlined in the Program Assessment Rating Tool. The Administration budget proposal calls for the creation of a new Regional Development Account (RDA) in EDA that would be funded at \$257 million and would replace the agency's current budget categories of public works, economic adjustment assistance, technical assistance and research, and evaluation. This report will be updated as the Administration offers new details and as Congress reviews the proposal.

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The Administration's Proposals

FY2006 Budget Proposal

The Bush Administration's FY2006 budget request included a proposal that recommended consolidating at least 18 existing community and economic development programs¹ into a two-part "Strengthening America's Communities Initiative." The proposed base program would award funds in support of job creation and economic development. According to Administration documents, the core program would use such factors as job loss, unemployment, and poverty as criteria when determining eligibility.² A bonus program (Economic Development Challenge Fund) modeled after the Millennium Challenge Account³ would allocate additional grant funds to distressed communities that have demonstrated efforts to improve economic conditions. As of this writing, the Administration has not proposed new legislative authority for this initiative, nor has it released such details as the following:

- eligible recipients;
- method of distributing funds;
- requirements for matching funds or leveraging;
- criteria for awarding bonus funds;
- performance measures for evaluating program effectiveness; and
- process for transition from existing programs to the new program.

In proposing the consolidation of various community development, community service, and economic development programs, the Administration contends the following about the programs whose activities would be consolidated:

- they have been judged to be ineffective, to be unable to demonstrate results, or to duplicate the efforts of other programs;
- they have unclear long-term objectives and are not focused on long-term community outcomes; and
- they include "many communities" that no longer need the assistance, undermining the purpose of some programs—to help distressed communities.

¹ The Administration's budget documents identify 18 programs to be included in the consolidation proposal. They include several programs under a single program or agency heading instead of identifying specific programs. Distinguishing these smaller set-asides from the core programs would yield 23 rather than 18 programs proposed for consolidation. For instance, the Administration does not identify separately the four programs administered by the Economic Development Administration that are proposed for consolidation, but groups all of these programs under the agency. The Administration only includes funding for the Neighborhood Initiative Grants and Economic Development Initiative Grants, both congressional earmarks, when calculating the amount of CDBG set-aside funds that would be consolidated under its proposal. It does not include FY2005 funding for all remaining CDBG set-asides or earmarks. These include Housing Assistance Council (\$3.3 million), National American Indian Housing Council (\$2.4 million), National Housing Development Council (\$4.8 million), National Council of LaRaza (\$4.8 million), Technical Assistance (\$1.4 million), and Working Capital Fund (\$3.5 million).

² White House Office of Management and Budget, "President Bush Proposes Strengthening America's Communities Initiative," available online at http://www.commerce.gov/SACI/Talking%20Points_Strengthening%20Communities%20FINAL%2002-03-05.pdf, visited Feb. 22, 2005.

³ For information about the Millennium Challenge Account, see http://www.mca.gov/compacts/guidance/Compact_Proposal_Guidelines_en.pdf, visited Feb. 22, 2005.

Using the Community Development Block Grant (CDBG) program to illustrate the point, the Administration contends that 38% of the program's funds currently are allocated to communities and states with poverty rates below the national average. This contention has drawn criticism from observers of the CDBG program. They argue that using the national poverty rates as a basis for comparison masks the community development needs of jurisdictions that have significant pockets of poverty and urban blight even though their poverty rates may be less than the national average.⁴ When challenging the Administration's assertion concerning the lack of need among such communities, supporters of the program could note that when Congress designed the CDBG program and its grant allocation criteria and formula, the intent was to award funds to states and communities based on such objective measures as the state or community's relative share of poverty, housing overcrowding, aged housing stock, and population growth rates. Thus, states and communities with relatively greater community development needs, as measured by the formula factors, arguably receive a greater percentage of funds per capita than communities with lesser community development needs. Moreover, CDBG supporters also note that Congress requires each state and entitlement community to allocate at least 70% of its funds to activities benefitting low- and moderate-income persons.⁵

A 2005 study conducted by HUD on the effects of the 2000 census on the allocation of CDBG funds noted that although funding anomalies exist, in general, the formula still provides more dollars per capita to needier communities than to less needy communities.⁶ The study noted that some communities with similar need received different allocations, but, it also noted that for the 10% of communities with the greatest need, the per capita CDBG allocation was four times greater than for the 10% of communities with the least need. In addition, the HUD study proposed several optional formulas intend to fine tune the program's targeting of funds.⁷

FY2007 Budget Proposal

The Administration's FY2007 budget request includes a revamped Strengthening America's Communities Initiative (SACI) proposal. The Administration has requested \$3.36 billion in FY2007 funding for its revamped SACI, but has yet to introduce a formal legislative proposal. This revamped SACI proposal would include \$3.032 billion for the formula portion of the CDBG program, including \$57.4 million for Indian tribes and \$327.2 million for Economic Development Administration (EDA) assistance, including \$29 million for EDA salaries and expenses. The \$3.36 billion in requested appropriations is approximately \$2 billion less than the \$5.3 billion in aggregate FY2006 appropriations for the 18 programs the Administration sought to eliminate.

The FY2007 proposal would reduce funding for CDBG from \$3.770 billion, including \$59.4 million for Indian tribes for FY2006, to \$3.032 billion, including \$57 million for Indian tribes. This is \$738 million less than appropriated in FY2006 for these two components of the CDBG program, which is a 20% funding reduction. The \$3.032 billion in proposed appropriations would also represent a \$1.2 billion funding reduction when measured against the seven programs administered by HUD that would be eliminated under the President's proposal.

⁴ U.S. Congress, House Committee on Government Reform, Subcommittee on Federalism and the Census, "Strengthening America's Communities—Is It the Right Step Toward Greater Efficiency and Improved Accountability?", statement of James C. Hunt on behalf of the National League of Cities, hearing, 109th Cong., 1st sess., Mar. 1, 2005.

⁵ 42 U.S.C. 5303(b)(3)(A)

⁶ U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *CDBG Targeting to Community Development Need*, Feb. 2005, p. x.

⁷ *Ibid.*, p. 61.

The Administration has indicated that it will seek to introduce legislation that would accomplish the following:

- change the formula used to allocate CDBG funds to more closely target assistance to communities most in need,
- create a bonus fund component, and
- propose reforms that address shortcomings in the program's performance measures as outlined in the Program Assessment Rating Tool (PART).

In addition to amending the CDBG program, the Administration's FY2007 budget includes \$327.2 million for EDA assistance, including \$29.7 million for salaries and expenses. This is \$47 million more than the \$280.4 million appropriated for EDA activities in FY2006. The proposed budget also includes language calling for the creation of a Regional Development Account (RDA) that would be created by consolidating the agency's public works, technical assistance, research and evaluation, and economic adjustment assistance programs under one unified account. EDA would continue to fund the planning activities of Economic Development Districts sub-state planning organizations under a separate account. The Administration's RDA would be a competitive grant program focused on assisting distressed communities and regions with building a "shared regional development plan based on regional competitive advantages."

Program Assessment Rating Tool (PART)

In 2004, the Administration began using its Program Assessment Rating Tool (PART) to evaluate the effectiveness of federal programs.⁸ According to the Administration, it subjected 607 programs to the PART review process and found that 33% of those programs received a score of "ineffective" or "results not demonstrated." The Administration's PART process is not without its critics. While some observers view the PART as an extension of the Government Performance and Results Act (GPRA) designed to ensure that activities of federal agencies have measurable outcomes, critics of the PART view it as political tool that shifts power from Congress to the President. Some critics of the PART also ask whether programs are reviewed in a consistent and value-neutral way. OMB Watch, for instance, contends that the FY2006 PART outcomes are biased "against programs that operate through grants, whether competitive grants or block grants."⁹ Of the programs rated "ineffective and zeroed out completely," adds OMB Watch, "89% are competitive or block grants."¹⁰

According to the Administration, of the 607 programs in FY2006 subject to its PART review, the eight programs listed in **Table 1**, below, were among those proposed for consolidation in the Administration's "Strengthening America's Communities Initiative."¹¹ Three of the eight programs were rated "moderately effective" or "adequate," whereas the remaining five were judged as "ineffective" or "results not demonstrated." For FY2006, critics noted that 10 of the programs included in the Administration's proposal were not subject to PART review. Conversely, the Administration may claim that the programs that have been reviewed constitute more than

⁸ For a review and analysis of the Administration's PART, see CRS Report RL32663, *The Bush Administration's Program Assessment Rating Tool (PART)*, by Clinton Brass.

⁹ OMB Watch, "Budget Includes Anti-Regulatory Proposal," available online at <http://www.ombwatch.org/article/articleview/2657/1/308?TopicID=1>, visited Feb. 24, 2005.

¹⁰ Ibid.

¹¹ Office of Management and Budget, *Major Savings and Reforms in the President's FY2006 Budget*, Feb. 11, 2005, p. 6, available at <http://www.whitehouse.gov/omb/budget/FY2006/pdf/savings.pdf>, visited Mar. 15, 2005.

90% of the total FY2005 funding level for the programs included in the Administration's FY2006 proposal.

For FY2007, six of the 18 programs underwent a PART assessment with only two—National Community Development Initiative and Economic Development Administration programs—judged as moderately effective. The remaining programs, including CDBGs, were judged as ineffective or results not demonstrated. Programs characterized as ineffective have been judged as unable to achieve results because of a lack of clear objectives, goals or purpose, poor management, or other significant program weaknesses, whereas programs characterized as results not demonstrated have been unable to develop acceptable performance measures that could demonstrate whether program goals are being achieved. Moderately effective programs are those that may be effective but may need to address efficiency concerns or program design or management issues in order to achieve better results.

**Table I. PART Score for Selected Programs Included
in the Economic Development Consolidation Proposal**

Program	FY2006 PART Score	FY2007 PART Score
Community Development Block Grant (formula grants)	ineffective	ineffective
Rural Housing and Economic Development	ineffective	ineffective
National Community Development Initiative	moderately effective	moderately effective
Economic Development Administration	moderately effective	moderately effective
Community Development Financial Institutions Fund	adequate	
Rural Business Enterprise Grants	results not demonstrated	results not demonstrated
Bank Enterprise Award	results not demonstrated	
Community Services Block Grants (CSBG)	results not demonstrated	results not demonstrated

Source: Office of Management and Budget, Program Assessment Rating Tool, available at <http://www.whitehouse.gov/omb/budget/FY2006/part.html>, visited Feb. 23, 2006, and <http://www.whitehouse.gov/omb/expectmore/index.html>, visited Feb. 23, 2006.

Congressional Jurisdiction and Action

The programs whose activities would be consolidated under the SACI proposal are administered by five agencies: the Department of Housing and Urban Development, the Economic Development Administration in the Department of Commerce, the Department of the Treasury, the Department of Health and Human Services, and the Department of Agriculture. Several congressional committees may claim some level of jurisdiction over the programs proposed for replacement. In the House, jurisdiction for the programs included in the proposal has been exercised by four subcommittees of the House Appropriations Committee and by at least six standing committees with authorizing or oversight responsibilities. In the Senate, in addition to the Appropriations Committee, at least four committees have exercised jurisdiction over some aspect of the Administration's proposal.

FY2006 Budget Resolution

The House and the Senate passed their respective versions of the nonbinding concurrent budget resolution on March 17, 2005. The House version was approved by a vote of 218 to 214 (Roll Call Vote 88). The report accompanying H.Con.Res. 95, H.Rept. 109-17, included language that would have provided an additional \$1.1 billion in funding for the Community and Regional

Development budget function (450) to “accommodate higher appropriations for programs such as the Community Development Block Grant. The resolution made no assumption regarding the implementation of the President’s “Strengthening America’s Communities Initiative” or transferring the Community Development Block Grant program from the Department of Housing and Urban Development to the Department of Commerce.”¹²

The Senate version of the concurrent budget resolution, S.Con.Res. 18, included an amendment (SA 230), approved by a vote of 68 to 31 (Record Vote No. 66) that would have restored \$2 billion in funding the CDBG and related programs that would have been eliminated under the Administration’s economic development proposal.

On April 28, 2005, the House and Senate approved the conference version of the budget resolution, H.Con.Res. 95 and its accompanying report (H.Rept. 109-62). The conference version of the budget resolution assumed an increase of \$1.5 billion above the President’s request for the community and regional development budget function. According to the manager’s statement in the accompanying conference report, the increase is “to maintain economic and community development programs such as CDBG at FY2005 levels.” The conference report also noted that the budget resolution assumed an increase of \$0.6 billion above the President request to fund the Community Services Block Grant at its 2005 funding level. It should be noted that the budget resolution is a nonbinding blueprint for the appropriation committees, who consider appropriation levels for specific program, including whether to fund the President’s new economic development proposal or any of the 18 existing programs that the proposal would replace.

FY2006 Congressional Appropriations Action

During consideration of FY2006 appropriations, Congress rejected the Administration’s SACI proposal and included funding for the 18 programs targeted for elimination in four appropriations acts. They included the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for FY2006, P.L. 109-97; Science, State, Justice, Commerce, and Related Agencies Appropriations Act for FY2006, P.L. 109-108; Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act for FY2006, P.L. 109-115; and Labor, Health and Human Services, Education, and Related Agencies Appropriations Act for FY2006, P.L. 109-149. The four appropriations acts include a total of \$5.3 billion in funding for FY2006 for the 18 programs the Administration sought to eliminate. This is approximately \$300 million less than the aggregate amount appropriated for FY2005, with most of the reduction being borne by the CDBG formula grants program. The reduction in CDBG formula grants totaled approximately \$400 million, but was countered, most notably, by a \$179 million increase in funding for CDBG set-asides (See **Table 3**).

Table 2. Congressional Committees Which Have Exercised Jurisdiction Over Programs Included in the Consolidation Proposal

House	Senate
Appropriations Committee	Appropriations Committee
<ul style="list-style-type: none"> Subcommittee. on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies 	<ul style="list-style-type: none"> Subcommittee on Agriculture, Rural Development, and Related Agencies

¹² U.S. Congress, House Committee on the Budget, *Concurrent Resolution on the Budget—FY2006*, report to accompany H.Con.Res. 95, 109th Cong., 1st sess, H.Rept. 109-17 (Washington: GPO, 2005), pp. 18-19.

House	Senate
<ul style="list-style-type: none"> • Subcommittee on Labor, Health and Human Services, Education, and Related Agencies • Subcommittee on Science, State, Justice, Commerce, and Related Agencies • Subcommittee on Transportation, Treasury, Housing and Urban Development, the Judiciary, and the District of Columbia 	<ul style="list-style-type: none"> • Subcommittee on Commerce, Justice, and Science • Subcommittee on Labor, Health and Human Services, Education, and Related Agencies • Subcommittee on Transportation, Treasury, the Judiciary, and Housing and Urban Development
Authorizing Committees	Authorizing Committees
<ul style="list-style-type: none"> • Committee on Agriculture • Committee on Financial Services • Committee on Government Reform • Committee on Transportation and Infrastructure 	<ul style="list-style-type: none"> • Committee on Banking, Housing, and Urban Affairs • Committee on Commerce, Science, and Transportation • Committee on Environment and Public Works

2005 House Hearing on the SACI Proposal

On March 1, 2005, the House Government Reform's Subcommittee on Federalism and the Census held a hearing on the Administration's consolidation proposal. Witnesses included Administration officials from the Department of Housing and Urban Development, the Office of Management and Budget, and the Department of Commerce, and officials from organizations representing local governments.¹³ Administration witnesses testified that the fragmented nature of the 18 programs reduces coordination, encourages duplication, and may provide assistance to communities that have sufficient resources and modest needs at the expense of communities with the greatest needs. It was also mentioned that most of the approximately 1,100 communities currently eligible for CDBG would be eligible under the proposed base and bonus programs, with the aim of "graduating" the wealthiest communities from the program. Noting that the proposal was a work in progress, the witnesses for the Administration outlined broad concepts that could be important components of its proposal. One witness noted that the March 1, 2005, *Federal Register* includes a notice concerning the formation of an advisory panel to assist in the development of a formal legislative proposal.

Witnesses representing the interests of local governments voiced unanimous opposition to the Administration's proposal. Among concerns they raised during the hearings was the lack of consultation by the Office of Management and Budget in the development of the proposal. They were briefed on the proposal after it had been developed. Representatives of local governments also objected to the following:

- transferring of the community development function to the Department of Commerce, particularly from the Department of Housing and Urban Development, whose CDBG component represents 74% of the funds that would be terminated under the new program;
- reducing program funding; and
- narrowing the focus of the new program to economic development and job creation at the expense of the wider mission of the CDBG program.

¹³ Organizations representing the views of local officials included U.S. Conference of Mayors, National Association of Counties, National League of Cities, and National Community Development Association.

In addition, witnesses objected to the Administration's contention that some percentage of communities currently eligible for CDBG should be removed as grant recipients because their poverty rates are below the national average. They countered that using the national poverty rate as a basis for comparison does not recognize that communities whose poverty rates fall below the national average may have substantial pockets of poverty. According to the Census Bureau's poverty estimates for 2000, the national poverty rate was 12.4%, excluding the population living in institutions, college dormitories, and other group quarters. If the 2000 national poverty rate were used as a qualifying threshold for eligibility, 18 states and Puerto Rico, 35 urban counties, and approximately 541 entitlement cities would be eligible.¹⁴ The 576 entitlement cities and urban counties whose poverty rates meet or exceed the national poverty rate of 12.4% represent 51% of the approximately 1,130 communities currently receiving CDBG formula grant allocations. Thus, using the national poverty rate as a threshold for eligibility would result in approximately half of the current CDBG-eligible communities qualifying for the new program. It should be noted that the Administration has stated that poverty is but one factor that will be considered in determining program eligibility, and that other criteria such as unemployment and income may be used as eligibility criteria allowing additional communities to qualify for the new program.

Administration Advisory Group

To assist the Administration in developing a detailed legislative proposal, the Secretary of Commerce established the Strengthening America's Communities Advisory Committee (SACAC).¹⁵ The 17-member SACAC is composed of individuals from state and local governments, the private sector, non-profit organizations, and research institutions and is slated to be in existence for two years.

Several national organizations representing state and local governments and community development organizations who opposed the SACI did not submit nominations for the SACAC in protest of the Administration's proposal.

The SACAC submitted an initial report to the Secretary in July 2005, after conducting several field hearings and undertaking a review of current federal policies. Though the SACAC offered no specific legislative proposal, its report chronicled the evolution of federal economic development policy, challenged the existing paradigms that buttress federal economic and community development programs, and outlined guiding principles and recommendations to be considered by the Secretary of Commerce in developing a detailed legislative proposal for the SACI.

Among the recommendations included in the report,¹⁶ are the following:

¹⁴ U.S. Census Bureau, *Income and Poverty in 1999, Census 2000 Summary File 3 (SF3) Sample Data, United States—County by State, and for Puerto Rico*, available at http://factfinder.census.gov/servlet/GCTTable?_bm=n&_lang=en&mt_name=DEC_2000_SF3_U_GCTP14_CO1&format=CO-1&_box_head_nbr=GCT-P14&ds_name=DEC_2000_SF3_U&geo_id=05000US40143, visited Mar. 15, 2005, and *Income and Poverty in 1999, Census 2000 Summary File 3 (SF3) Sample Data, United States—Places and County Subdivisions with 50,000 or More Population and for Puerto Rico*, available online at http://factfinder.census.gov/servlet/GCTTable?_bm=y&-geoid=&-ds_name=DEC_2000_SF3_U&-_lang=en&-mt_name=DEC_2000_SF3_U_GCTP14_US25&-format=US-25&-CONTEXT=gct, visited Mar. 15, 2005, and *Census 2000 Demographic Profile Highlights Fact Sheets* available online at <http://factfinder.census.gov/servlet/SAFFacts?> visited Mar. 15, 2005.

¹⁵ U.S. Dept. of Commerce, "Strengthening America's Communities Advisory Committee," *Federal Register*, vol. 70, no. 39, March 1, 2005, pp. 9916-9918.

¹⁶ U.S. Dept. of Commerce, *Report of the Strengthening America's Communities Advisory Committee*, July 2005 available at http://www.commerce.gov/SACI/SACAC_Report_Final_d.pdf, visited January 25, 2006.

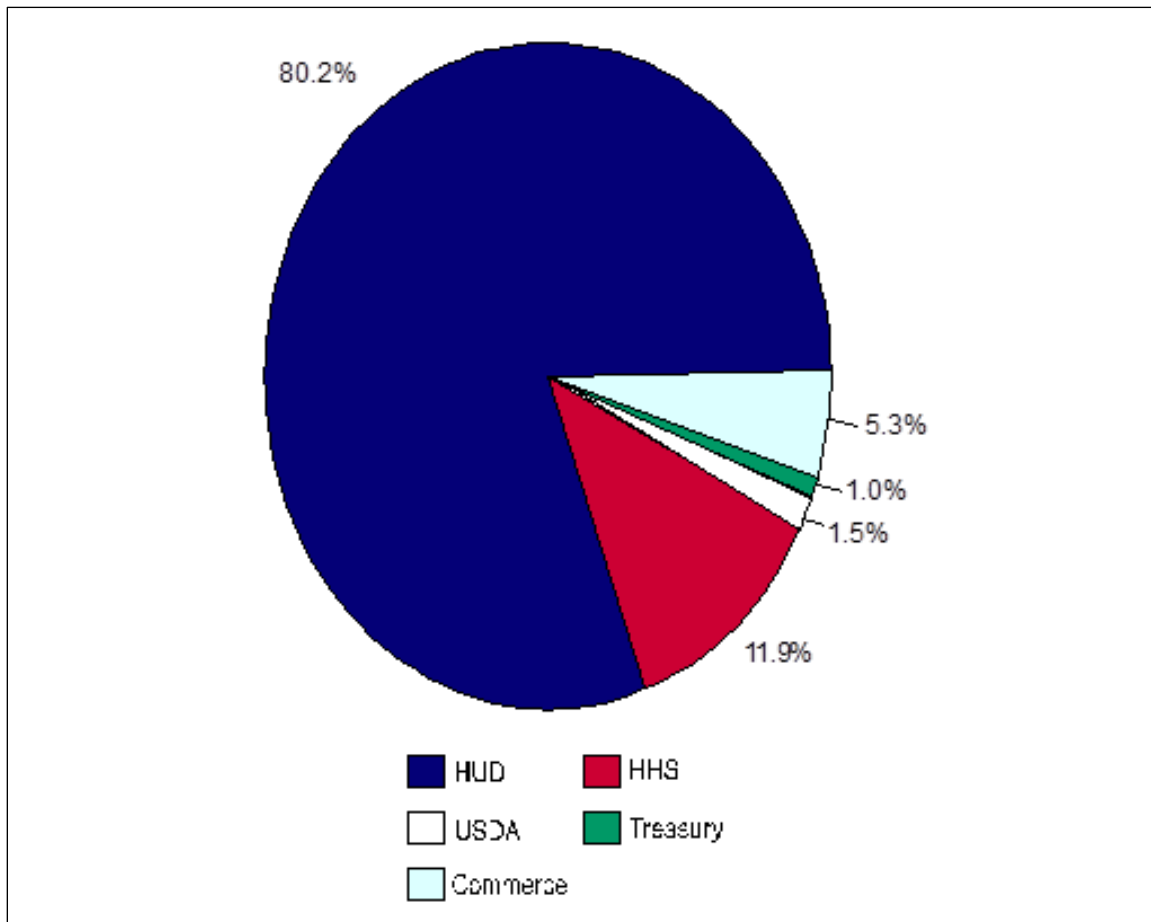
- establish regional competitiveness as the overriding goal of federal economic and community development policies;
- coordinate and consolidate workforce development programs with economic development initiatives;
- direct federal economic and community development assistance to encourage communities to form regional alliances based on economic relationships rather than political boundaries;
- target federal economic and community development resources to communities and regions with the greatest need;
- develop a new challenge grant program to provide additional assistance to distressed communities and regions that undertake efforts to encourage private investment and business expansion;
- provide capacity-building assistance to communities that lack the resources to compete for grant assistance;
- establish a 10-year goal of shifting the majority of federal community and economic assistance to results-oriented competitive grants;
- consolidate federal community and economic development programs to reduce or eliminate overlap, duplication, and fragmented implementation;
- encourage the leveraging of non-federal funds when awarding federal assistance, but allow waivers or reductions in certain instances for distressed communities; and
- develop analytical tools and metrics to assist regions and communities to identify their competitive advantages, develop strategies, track progress, and quantify performance outcomes.

Current Distribution of Funds Proposed for Consolidation

When the Administration first introduced its SACI as part of its FY2006 budget request, the FY2005 aggregate budget authority for programs included in the Administration's consolidation proposal was \$5.615 billion. Congress rejected the Administration's consolidation proposal, but it did reduce the overall funding for the programs that would have been consolidated to \$5.338 billion for FY2006. Most of these funds, 80%, are administered by the Department of Housing and Urban Development (HUD) (See **Figure 1**). If approved by Congress, the Administration's proposed cuts, coupled with proposed increases in other programs within HUD, would have reduced the agency's total budget by 10.9%, from \$31.9 billion to \$28.5 billion. Instead Congress elected to fund the 18 programs in FY2006. Though CDBG formula grants for FY2006 were reduced by \$400 million to \$3.7 billion, overall funding for the programs proposed for consolidation was reduced by only \$300. This was due in large part to an increase in funding for CDBG set-asides and earmarks. In addition, total funding for HUD increased by \$2 billion fueled by an increase in Section 8 assisted housing and a decrease in offsetting FHA receipts.

Critics of the SACI maintained that the program, if enacted, would reduce the agency's role in encouraging solutions to the nation's housing and community development problems, one of the key components of the agency's mission (42 U.S.C. 3531). Critics note that the Administration fails to recognize the link between housing policy and community and economic development policies.

Figure 1. Percent Distribution of FY2006 Appropriations for Community and Economic Development Programs Included in the Administration's SACI Proposal, by Administering Agency



CDBG Formula Grants. When first introduced in 2005, the SACI proposal recommended consolidating the activities of the 18 programs and reducing funding from \$5.615 billion to \$3.7 billion. The program most affected by the proposal would have been the formula portion of the CDBG program. Of the programs proposed for consolidation, CDBG formula grants account for 74% of the \$5.615 billion in aggregated FY2005 appropriations, and 70% of the \$5.3 billion in aggregate FY2006 funding (See **Table 3**). Opponents of the change maintain that because CDBG is the largest source of federal assistance for community and economic development and neighborhood revitalization activities, changing or eliminating the program would affect not only the 1,178 state and local governments that receive direct allocations, but it would also affect the thousands of nonprofit subrecipients of CDBG funds, including community development corporations, community action agencies, and faith-based organizations. The Administration has noted that it is committed to ensuring that the new program will continue to provide local governments with a high degree of flexibility, but it will also require that communities demonstrate measurable results.

For FY2007, the Administration's budget proposal would reduce funding for entitlement communities and states by 19% below the program's FY2006 appropriation. This proposed reduction would be in addition to the 10% reduction in CDBG funding from FY2005 to FY2006.

It is anticipated that the proposed reduction in CDBG funding would also be accompanied by changes in the program's structure. Although the Administration has not yet offered a formal legislative proposal, it has stated that it will introduce legislation that would revise the program's formula to more closely target assistance to communities most in need. This may mean some communities currently eligible for assistance may either be eliminated as entitlement communities or may be subject to deep funding cuts. The Administration has also indicated that some portion of the CDBG appropriation may be used to fund a bonus program, although the parameters of the program are unclear.

Economic Development Administration. The FY2007 version of the President's SACI proposal would revamp the Economic Development Administration programs. The proposal would consolidate four existing programs (public works, economic adjustment assistance, research and evaluation, and technical assistance) into a single account—the Regional Development Account. Funds would be awarded on a competitive basis to entities that support multi-jurisdictional regional development activities. The new Regional Development Account (RDA) in EDA would be funded at \$257 million, with an additional \$27 million in funding made available for planning grants awarded to the Economic Development Districts, \$13 million for trade adjustment assistance, and \$29 million for salaries and expenses.

Policy Questions

Among the questions the Administration's initiative poses are the following:

- Why has the Administration chosen to revamp existing programs such as CDBG and EDA rather than create a new program? The Administration's initial SACI proposal called for the elimination of both EDA programs and CDBGs. These programs were to be replaced by a new block grant.
- How will eligibility for the new RDA grants and the revised CDBG programs be determined?
- How will the new bonus program differ from the existing programs that may have divergent recipients, such as CDBG (which allocates funds to states and local governments) and the Community Development Financial Institutions Fund (which competitively awards funds to financial institutions involved in community development lending in underserved areas)?
- How will the new program differ in its approach from the existing CDBG and EDA programs?
- What formula factors will be used to distribute funds, and how will they differ from the targeting requirements of the CDBG formula?
- How will the new bonus program work?
- Should Congress legislate changes that would more closely target assistance based on need, or should grant assistance be awarded based on competitive factors? and
- What common performance measures will be used to evaluate program effectiveness?

Table 3. Distribution of Funds Proposed for Consolidation

Program	FY2005 Appropriations (\$ in millions)	Percent of FY2005 Total	FY2006 Appropriation (\$ in millions)	FY2007 Admin. Request (\$ in millions)
Community Development Block Grant (formula)	\$4,150.0	74.0	\$3,710.54	\$2,974.6
Community Development Block Grant Set-Asides	302.0	5.4	466.88c	57.4d
Community Development Block Grants Section 108 Loan Guarantees	6.0	0.1	2.97	0.0
Brownfields Economic Development Initiative	25.0	0.43	9.90	0.0
Urban Empowerment Zones	10.0	0.18	0.0	0.0
Rural Housing and Economic Development	25.0	0.43	16.83	0.0
National Community Development Initiative	30.0	0.5	29.70	0.0
Economic Development Administration	284.1	4.6	280.43	327.1
Community Development Financial Institutions Fund	55.0	1.0	54.45	0.0
<i>Bank Enterprise Awards Program</i>	(10.0)			0.0
Rural Business Enterprise Grants	40.0	0.71	39.60	0.0
Rural Business Opportunity Grants	3.0	0.05	2.97	0.0
Economic Impact Initiative Grants	23.0	0.4	17.82	0.0
Rural Empowerment Zones	12.0	0.2	21.19	0.0
Community Services Block Grants and Related Programs (CSBG) ^a	676.7	12.1	636.86	0.0
<i>Community Services Block Grants</i>	(636.8)	(11.3)	(590.93)	0.0
<i>Community Economic Development</i>	(32.7)	(0.6)	(32.7)	0.0
<i>Job Opportunities for Low-Income Individuals (JOLI)</i>	(5.4)		(5.34)	0.0
<i>Rural Community Facilities</i>	(7.2)	(0.1)	(7.23)	0.0
Total	\$5,641.8	100.0^b	\$5,290.14	\$3,359.1

Note: A program in italics is a component of the program preceding it in roman type.

- a. Although they are considered CSBG-related programs, the Community Food and Nutrition Program and the National Youth Sports Program are not included in the calculations for the President's Initiative. The Administration stated that activities funded by these programs duplicate existing programs of the Department of Agriculture's Food and Nutrition Service, and the Social Service Block Grant, respectively.

- b. Funding does not add up to 100% due to rounding.
- c. An additional \$31 million previously funded under the CDBG program was transferred to a new Self-Help and Assisted Homeownership program Housing account. For details see Table 14 of CRS Report RL32869, *The Department of Housing and Urban Development (HUD): FY2006 Budget*, by Maggie McCarthy, Libby Perl, Bruce Foote and Eugene Boyd. In addition, \$20.6 million in federal assistance for minority institutions of higher education were transferred to the Office of Policy Development and Research.
- d. Includes only assistance for the Indian CDBG program. Funding for minority institutions of higher education would be funded at \$29 million within the Office of Policy Development and Research.

Profile of Programs Proposed for Consolidation

The following table includes brief profiles of programs proposed for consolidation under the Administration's Strengthening America's Communities Initiative proposal. The table lists the following for each program included in the consolidation proposal: (1) its FY2005 and FY2006 funding level; (2) the type of recipients eligible for program funds; (3) the type of assistance provided by the program (formula grants, project grants, loans, loan guarantees); and (4) the method used to award or allocate assistance. As a general observation, the majority of program funds proposed for consolidation are currently allocated to local governments, particularly those within metropolitan areas, through two block grants—CDBG and Community Services Block Grants (CSBG). In addition, a number of programs provide direct assistance to nonprofit organizations, particularly community development corporations, which may also receive or administer funds as subrecipients.

Table 4. Profile of Community and Economic Development Programs Proposed for Consolidation

Program name and description	FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
Department of Housing and Urban Development			
Community Development Block Grants	FY05—\$4,150.0	50 states, Puerto Rico, metropolitan-based entitlement communities (metropolitan cities with populations of 50,000 or more and urban counties). In FY2005, there were 1,032 entitlement communities. \$7 million is set aside for insular areas including Guam, American Samoa, and the Virgin Islands.	Formula-based block grants.
Formula-based block grants allocated to states and local governments in support of neighborhood revitalization, economic development, and housing activities. Communities may use block grants to support 23 categories of eligible activities. 70% of funds must be used on eligible activities and projects that principally benefit low- or moderate-income persons.	FY06—\$3,710.0		<p>Funds are distributed to states and local governments based on the higher yield from one of two needs-based formulas.</p> <p>(1) 30% of funds are allocated to states for distribution to communities that do not receive a direct allocation. States receive funds based on one of two formulas:</p> <p>—Formula A allocates funds based on each state's share of population, poverty, and overcrowded housing;</p> <p>—Formula B allocates funds based on each state's share of poverty, housing built before 1939, and population.</p> <p>(2) 70% of funds are allocated to entitlement communities based on one of two formulas:</p> <p>—Formula A allocates funds based on each entitlement community's share of population, poverty, and housing built before 1939 (age of housing);</p> <p>—Formula B allocates funds based on each entitlement community's share of poverty,</p>

Program name and description	FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
CDBG set-asides	FY05—\$302.0 ^a FY06—\$467.0 ^e		overcrowded housing, and the lag in population growth.
<i>Neighborhood Initiative</i>	FY05—(\$41.0) FY06—(\$549.5)	Congressionally selected community development corporations.	Project grants. Congressionally earmarked funds allocated to a diverse group of recipients. Program was originally targeted to community development corporations involved in neighborhood revitalization.
<i>Economic Dev. Initiative</i>	FY05—(\$261.0) FY06—(\$307.0)	No specific criteria establishing eligibility for funding.	Congressionally earmarked grant funds allocated to diverse groups of recipients including universities, community colleges, nonprofit entities, local governments. Funds are used in support of a variety of activities including recreation, literacy, historic preservation, job training, feasibility studies, public services. No specific list of eligible activities.
National Community Development Initiative (Living Cities) Program supports local community development corporations involved in neighborhood revitalization.	FY05—\$30.0 FY06—\$29.7	Local Initiative Support Corporation and the Enterprise Foundation (national nonprofit intermediaries). The two nonprofit intermediaries support neighborhood revitalization efforts of local community development corporations. More than 300 community development corporations in 23 selected cities have been involved in the program. ^b	Project grants. Federal funds are used in coordination with investments from foundations and corporations in support of redevelopment efforts in distressed urban neighborhoods. Working through two national intermediaries, the Local Initiative Support Corporation and the Enterprise Foundation, local community development

Program name and description	FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
Brownfields Econ. Dev. Initiative (BEDI) Funds are used to reclaim contaminated sites for adaptive reuse.	FY05—\$25.0 FY06—\$9.0	State and local governments are direct recipients of funds. Subgrantees or beneficiaries may include businesses or nonprofits involved in job creation activities.	<p>corporations receive technical and financial assistance in support of their revitalization efforts. More than \$250 million in private sector funds from 14 participating corporate and foundation entities have been used in the program since its inception in 1991.</p> <p>Project grants. BEDI funds must be used in coordination with CDBG Sec. 108 loan guarantees. These grants and the accompanying Sec. 108 loan guarantees must be consistent with a community's CDBG plan and must meet the same income targeting requirements as the CDBG program. In 2004, HUD selected 17 communities to received \$24.6 million in BEDI grants and \$119 million in loan guarantees.</p>
Rural Housing and Econ. Dev. Grants Grants are awarded for two categories of activities: (1) capacity building; and (2) support for innovative housing and economic development activities. Grants are limited to \$150,000 under the first category, and \$400,000 under the second category.	FY05—\$25.0 FY06—\$16.8	Local rural nonprofits, community development corporations, state housing finance agencies, state community and economic agencies, and federally recognized Indian tribes.	<p>Project grants. Applications are evaluated and rated based on five rating factors: (1) Capacity of the applicant and relevant organizational experience (25 points); (2) Need and extent of the problem (25 points); (3) Soundness of approach (25 points);</p>

Program name and description	FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
Urban Empowerment Zones Round II Grants Awarded to the 15 designated communities for use in conjunction with economic development activities consistent with the strategic plan of each empowerment zone.	FY05—\$10.0 FY06—0.0	15 urban empowerment zones designated as a result of a competition. ^c	(4) Leveraging resources (10 points); and (5) Achieving program results and evaluation (15 points). Grants are awarded to applicants securing the highest scores. Project grants. For FY2005, each zone received \$666,666 for use in conjunction with economic development activities consistent with the communities' strategic plans.
CDBG Sec. 108 Loan Guarantees Allow states and CDBG entitlement communities to borrow up to five times their annual CDBG allocations to finance eligible large-scale economic development projects.	FY05—\$6.0 in credit subsidies in support of \$282.0 in loan guarantee commitments FY06—\$3.0 in credit in subsidies in support of \$137.5 in loan guarantee commitments	CDBG entitlement communities and states on behalf of nonentitlement communities are direct recipients of funds. Subgrantees or beneficiaries may include nonprofits and for-profit entities involved in job creation activities.	Loan guarantees. Open application process. Applications are reviewed by HUD to determine compliance with national objectives of the CDBG program and feasibility of the project. Among the factors used to assess loan risk are the following: (1) the length of the proposed repayment period; (2) the ratio of expected annual debt service requirements to expected annual grant amount awarded to the state or entitlement community; (3) the likelihood that the public entity or state will continue to receive CDBG assistance

Program name and description	FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
			<p>during the proposed repayment period;</p> <p>(4) the public entity's ability to furnish adequate security; and</p> <p>(5) the amount of program income the proposed activities are reasonably expected to contribute to repayment of the guaranteed loan.</p>
Department of Commerce			
<p>Economic Development Administration (EDA) Agency administers several economic development programs, including public works grants for upgrading infrastructure, planning, and trade adjustment assistance. Eligible projects must: (1) improve the opportunities for business creation or expansion; (2) assist in the creation of additional permanent private-sector jobs; or (3) benefit low-income persons including those who are unemployed or underemployed.</p>	<p>FY05—\$257.4 FY06—\$280.4</p>	<p>Economic Development Districts (EDD) (multi-county organizations established to promote economic development and job creation). EDA provides assistance to 327 EDDs. The areas designated as EDDs must meet one of three criteria: (1) low per capita income; (2) unemployment higher than national average; (3) sudden economic dislocation or persistent and long-term economic distress. Funds may also be awarded to states, cities, and other political subdivisions and other organizations.</p>	<p>Competitive grants.</p> <p>Generally, EDA administers a number of competitive project grants. Grants may not exceed 50% of the cost of the project. Projects meeting certain specified criteria and for areas characterized as severely depressed may be eligible for additional funding not to exceed 30% of the cost of the project. Projects must be located in economically distressed areas including those experiencing high unemployment or low incomes. Priority is given to projects:</p> <p>(1) in areas with persistently high rates of poverty;</p> <p>(2) involving previously unserved distressed areas and applicants;</p> <p>(3) involving innovative partnerships and private investment leveraging;</p> <p>(4) that support sub-state regional networks and collaborations; and (5) in areas</p>

Program name and description	FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
Department of Agriculture			
Rural Business Enterprise Grants	FY05—\$40.0	Grants to small and emerging businesses; expansion of rural distance learning networks; job training related to potential employment for adult students; nonprofit organizations for provision of technical assistance to rural communities for improving transportation services. A rural area is defined as a city, town, or unincorporated area that has a population of 50,000 or less and is not an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 persons.	Competitive grants. Preference given to: (1) projects located in communities with a high percentage of the population with low incomes; (2) projects that will save existing jobs; (3) projects that will create jobs; and (4) projects located in areas with a high unemployment rate.
	FY06—\$39.6		
Rural Business Opportunity Grants	FY05—\$3.0	Grants to public bodies, nonprofit organizations, Indian tribes, and cooperatives for training and assistance to rural businesses, economic planning for rural areas, and training for rural entrepreneurs. A rural area is defined as a city, town, or unincorporated area that has a population of 50,000 or less and is not an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 persons.	Competitive grants. Grant selection criteria include the extent to which: (1) economic activity generated by the project is sustainable; (2) the project leverages funds from other sources; (3) the project will induce additional economic benefits; (4) the targeted community has experienced long-term population or job loss; (5) the proposed project will serve a community that may be experiencing economic trauma due to natural disaster, base closure, or exodus or downsizing by a major employer; (6) the project would be located in a community that may be characterized as chronically poor.
	FY06—\$2.9		

Program name and description		FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
Economic Impact Initiative Grants	FY05—\$21.0	Essential community facilities in economically depressed rural communities with high unemployment and/or significant out-migration.	Competitive grants.	Funding through directed spending of appropriations to the Community Facilities account of the Rural Community Advancement Program.
	FY06—\$17.8			
Rural Empowerment Zones/Enterprise Communities Program (EZ/EC)	FY05—\$12.0	Communities with high unemployment and poverty that have been designated as Empowerment Zones and Enterprise Communities through a competitive process.	Loans and grants.	Discretionary appropriations to the EZ/EC program account for designated EZ/EC communities. Additional funding may also be provided through directed spending of appropriations to the Rural Community Advancement Program (\$22.2 million in FY2005, including funding for the Rural Economic Area Partnership areas). Directed spending of appropriations to other USDA Rural Development programs may also affect the EZ/EC programs.
	FY06—\$21.4			
Department of the Treasury				
Bank Enterprise Award Program (included in CDFI Fund)	FY05—(\$10.0) FY06—(\$9.0)	FY05—(\$10.0) FY06—(\$9.0)	Insured depository institutions; in FY2004, 49 FDIC-insured institutions received \$17 million in BEA Program awards. Competitive grants. Applicants participate in the BEA Program through a competitive process which evaluates applications based on the value of their increases in certain qualified activities. Participants receive award proceeds only after successful completion of the specified qualified activities.	
Native Initiatives (included in CDFI Fund)	FY05—(\$4.0) FY06—(\$3.6)	Existing and emerging CDFIs serving Native American, Alaska Native, and Native Hawaiian communities; in FY2004, 41 Native Initiative awards were made, totaling \$8.5 million.	Same as for the CDFI Program.	
Department of Health and Human Services				
Community Services Block Grants	FY05—\$636.8	50 states, Puerto Rico, Indian tribes, and the territories of Guam, American Samoa, the	Formula block grants. HHS is required under the CSBG Act to reserve 1.5% of appropriated funds for training and technical assistance and other administrative activities, of which half of this set-aside must be	

		FY2005/FY2006 appropriation	
Program name and description		(\$ in millions)	Eligible entities
	FY06— \$636.9	Virgin Islands, and the Northern Mariana Islands.	provided to state or local entities. Also, half of 1% of funding is reserved for outlying territories (Guam, American Samoa, the Virgin Islands, and the Northern Mariana Islands). Block grants are allotted to states and Puerto Rico based on the relative amount received in each state, in FY1981, under a section of the former Economic Opportunity Act. HHS may allow Indian tribes to receive their allotments directly, rather than through the state. States are required to pass through at least 90% of their federal block grant allotments to “eligible entities.” There are more than 1,000 eligible entities around the country, of which approximately 80% are private nonprofit organizations and about 20% are public agencies.
Community Economic Development	FY05— \$32.7	Nonprofit community development corporations including charitable, faith-based, Indian, and Alaskan Native organizations.	Competitive discretionary grants.
	FY06— \$32.7		Funds awarded at the Secretary’s discretion. This program is one of the related activities authorized by the CSBG Act. The program supports local community development corporations’ National Youth Sports Program, and efforts to generate employment and business development opportunities for low-income residents. Projects must: (1) directly benefit persons living at or below the poverty level and (2) be capable of being completed within 12 to 60 months of the date the grant was awarded. Preference is given to projects that document public/private partnership including the leveraging of cash and in-kind contributions; and to projects located in areas characterized by poverty and other indicators of socioeconomic distress, such as a Temporary Assistance to Needy Families (TANF) assistance rate of at least 20%, designation as an Empowerment Zone or Enterprise Community (EZ/EC), high levels of unemployment, high levels of incidences of violence, gang activity, crime, drug use, and low-income noncustodial parents of children receiving TANF.
Job Opportunities for Low-Income Individuals (JOLI)	FY05— (\$5.4) FY06— (\$5.34)	Nonprofit, tax-exempt organizations including faith-based and community development corporations and charitable organizations.	Competitive discretionary grants. This program is a set-aside within the Community Economic Development Program. The program provides grants to community based, nonprofit organizations to demonstrate and evaluate ways of creating new employment opportunities with private employers for individuals receiving TANF and other low-income individuals whose family income level does not exceed 100% of the poverty guidelines. Projects to help with this effort include self-employment and micro-enterprises, new businesses, expansion of existing businesses, or creating new jobs or employment opportunities.
Rural Community Facilities	FY05— \$7.2	Tax-exempt nonprofit organizations, states, and local governments.	Competitive discretionary grant. This program is one of the related activities under the community economic development component of the CSBG. Grants are provided to nonprofit organizations that train and offer

Program name and description	FY2005/FY2006 appropriation (\$ in millions)	Eligible entities	Formula or distribution method
FY06— \$7.23		technical assistance on water and waste water facilities management and home repair to low-income families, and that develop low-income rental housing units in rural communities. Approximately 8 water and wastewater projects are funded annually.	

Note: A program identified in italics is a component of the program preceding it in roman type.

- a. When calculating the amount of funds included in activities that would be consolidated under its proposal, the Bush Administration includes funding only for the Neighborhood Initiative Grants and Economic Development Initiative Grants, both of which are congressional earmarks. The Administration does not include funding for all remaining set-asides or earmarks that would not be consolidated under the new proposal. These include Housing Assistance Council (\$3.3 million), National American Indian Housing Council (\$2.4 million), National Housing Development Council (\$4.8 million), National Council of LaRaza (\$4.8 million), Technical Assistance (\$1.4 million), and Working Capital Fund (\$3.5 million).
- b. Selected cities include Atlanta, GA; Baltimore, MD; Boston, MA; Chicago, IL; Cleveland, OH; Columbus, OH; Dallas, TX; Denver, CO; Detroit, MI; Indianapolis, IN; Kansas City, MO; Los Angeles, CA; Miami, FL; Minneapolis-St. Paul, MN; Newark, NJ; New York, NY; Philadelphia, PA; Phoenix, AZ; Portland, OR; San Antonio, TX; San Francisco Bay Area, CA; Seattle, WA; Washington, D.C.
- c. Round II EZ cities include Santa Ana, CA; New Haven, CT; Miami-Dade County, FL; Boston, MA; Gary-Hammond-East Chicago, IN; Minneapolis, MN; St. Louis—East St. Louis, MO-IL; Cumberland County, NJ; Cincinnati, OH; Columbus, OH; Columbia-Sumter, SC; Knoxville, TN; El Paso, TX; Norfolk-Portsmouth, VA; Huntington, Ironton, WV-OH.
- d. In addition, the Fund administers the New Markets Tax Credit (NMTC) program. This program permits taxpayers to receive a tax credit for making qualified investments in designated Community Development Entities (CDEs). The NMTC will continue to be administered by the Department of the Treasury.
- e. The FY2006 appropriations includes funding CDBG funds to Indian tribes (\$60 million) and the YouthBuild program (\$50 million), and Working Capital fund (\$1.6 million). These Administration's FY06 budget proposal recommended transferring these programs to other accounts.

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